

**RURAL WATER DISTRICT NO. 8  
LEAVENWORTH COUNTY, KANSAS**

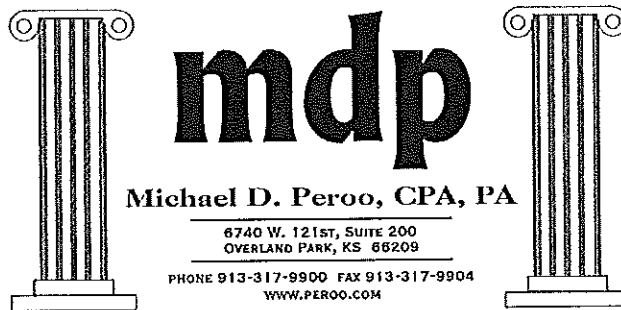
**Financial Statements for the  
Year Ended December 31, 2011  
And Independent Auditors' Report**

# **RURAL WATER DISTRICT NO. 8 LEAVENWORTH COUNTY, KANSAS**

## **TABLE OF CONTENTS**

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	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Statement of Net Assets	2
Statement of Activities and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5-9
SUPPLEMENTAL INFORMATION:	
Schedule of Insurance in Force	10
Schedule of Statistical Information	11



## INDEPENDENT AUDITORS' REPORT

Board of Directors and Members  
Rural Water District No. 8  
Leavenworth County, Kansas

We have audited the accompanying statement of net assets of Rural Water District No. 8 (District), Leavenworth County, Kansas as of December 31, 2011, and the related statement of activities and changes in net assets and cash flow for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the Kansas Municipal Audit Guide (KMAG). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2011, and the results of its operations and cash flow for the year then ended in conformity with generally accepted accounting principles.

The supplemental schedules for the year ended December 31, 2011, listed in the foregoing table of contents are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The District has elected not to adopt the provisions of Government Accounting Standards Board Statement No. 34 requiring the presentation of management's discussion and analysis.

*Michael D. Peroo, CPA, PA*

February 9, 2012

**RURAL WATER DISTRICT NO. 8  
LEAVENWORTH COUNTY, KANSAS**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

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**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents	\$ 170,946
Certificates of deposit	916,858
Accounts receivable	40,173
Other receivable	1,299
Prepaid insurance	2,795
Inventory	<u>3,916</u>
Total current assets	<u>1,135,987</u>

PROPERTY, PLANT AND EQUIPMENT, NET	<u>1,503,273</u>
	<u>\$ 2,639,260</u>

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES:**

Accounts payable	\$ 13,324
Customer deposits payable	433
Accrued liabilities	<u>10,436</u>
Total current liabilities	<u>24,193</u>

**NET ASSETS:**

Invested in capital, net of debt	1,503,273
Unrestricted	<u>1,111,794</u>
Total net assets	<u>2,615,067</u>
	<u>\$ 2,639,260</u>

**RURAL WATER DISTRICT NO. 8**  
**LEAVENWORTH COUNTY, KANSAS**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED DECEMBER 31, 2011**

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WATER SALES	\$ 348,539
COST OF WATER PURCHASED	<u>156,123</u>
GROSS PROFIT	<u>192,416</u>
OPERATING EXPENSES:	
Salaries	99,735
Payroll taxes	10,213
Insurance	8,006
Depreciation and amortization	69,704
Utilities	9,415
Office expenses, telephone, and internet	14,315
Mileage	9,507
Professional fees	5,561
Repairs and maintenance	31,988
Miscellaneous	<u>8,727</u>
	<u>267,171</u>
LOSS FROM OPERATIONS	<u>(74,755)</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest income	15,428
Loss on disposal of property, plant and equipment	(12,143)
Late charges and other income	<u>9,319</u>
	<u>12,604</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(62,151)
BENEFIT UNITS AND AID IN CONSTRUCTION	<u>13,647</u>
CHANGE IN NET ASSETS	<u>(48,504)</u>
NET ASSETS, BEGINNING	<u>2,663,571</u>
NET ASSETS, ENDING	\$ <u><u>2,615,067</u></u>

**RURAL WATER DISTRICT NO. 8**  
**LEAVENWORTH COUNTY, KANSAS**

**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2011**

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**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from members for water	\$ 374,949
Cash payments to suppliers for goods and services	(252,093)
Cash payments to employees for services	<u>(99,735)</u>

Net cash provided by operating activities	<u>23,121</u>
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**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Proceeds from sale of benefit units and aid in construction	13,647
Acquisition and construction of property, plant & equipment	<u>(187,592)</u>

Net cash used by capital and related financing activities	<u>(173,945)</u>
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**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Miscellaneous non-operating income	<u>9,319</u>
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**CASH FLOWS FROM INVESTING ACTIVITIES:**

Change in certificates of deposit	16,481
Interest received	<u>15,428</u>

Net cash used by investing activities	<u>31,909</u>
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NET CHANGE IN CASH AND EQUIVALENTS	(109,596)
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CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>280,542</u>
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CASH AND EQUIVALENTS, END OF YEAR	<u><u>\$ 170,946</u></u>
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**Reconciliation of operating income to net cash  
provided by operating activities:**

Operating loss	\$ (74,755)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	69,704
Changes in:	
Accounts receivable	27,153
Other receivable	(743)
Prepaid insurance	319
Accounts payable	1,176
Accrued liabilities	<u>267</u>

Net cash provided by operating activities	<u><u>\$ 23,121</u></u>
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**RURAL WATER DISTRICT NO. 8**  
**LEAVENWORTH COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- a. Organization - The Rural Water District (District) was established as a tax-exempt organization to acquire water and water rights and to build and acquire pipelines for the purpose of furnishing water to owners and occupants of land located within the district. The total number of customers at December 31, 2011 was 822.
- b. GASB Statement No. 34 – In June 1999, GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. This statement, known as the "Reporting Model" statement, affects the way the District prepares and presents financial information.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments, including special purpose governments. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

*Management's Discussion and Analysis* – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the District's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

*Statement of Net Assets or Balance Sheet* – This statement is designated to display the financial position of the District. Districts report all capital assets, including infrastructure. The net assets of the District will be broken down into three categories 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation* – The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

- c. Cash equivalents - For purposes of the statements of cash flows, the District considers all highly liquid debt investments having original maturities of three months or less to be cash equivalents.
- d. Accounts receivable – The District reads meters between the 26<sup>th</sup> or 27<sup>th</sup> of each month, statements are sent out on the last day of the month. Payments for water service are due the 18th day of the month and will be subject to a \$10 late charge if not paid.
- e. Inventory - Inventories consist primarily of meters, pipe and line maintenance material. Inventories are stated at the lower of cost or market. Cost is determined using the first in, first out method.

- f. Property, plant and equipment - Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized.
- g. Income taxes - The District is considered a tax-exempt entity and is not subject to income taxes at either the federal or state level.
- h. Benefit Units - Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$4,000 and are included in the statement of activities.
- i. Aid in Construction - Aid in Construction represents contributions from the members for line extensions and are included in the statement of activities.
- j. Customer Deposits - Represents amounts customers have placed on deposit with the District to guarantee payment of their account. The District has decided this policy is no longer necessary and is systematically returning these deposits to the customers.
- k. Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

## 2. CASH AND INVESTMENTS

At December 31, 2011, the District's deposits were covered by federal depository insurance or by collateral held by the District's agent in the District's name. The following represents the District's cash and certificates of deposit:

### Cash and cash equivalents:

Citizens Savings & Loan Assn - checking	\$ 71,884
Mutual Savings Assn - money market	<u>99,062</u>
	<u>\$ 170,946</u>

### Certificates of deposit:

	Interest Rate	
Citizens Savings & Loan Assn	0.90%	\$ 200,538
Citizens Savings & Loan Assn	0.85%	311,453
Mutual Savings & Loan	0.50%	204,867
Academy Bank	1.49%	<u>200,000</u>
		<u>\$ 916,858</u>



The District is restricted to the type of investments under K.S.A. 12-1675 which primarily includes money market accounts, savings accounts, U.S. treasuries and certificates of deposits with maturities less than 2 years. The cash and investments are considered low risk and cost approximates fair value..

### 3. PROPERTY, PLANT AND EQUIPMENT

Rural Water System	\$ 2,167,769
Buildings	42,707
Equipment	27,000
Vehicles	24,072
Tower	<u>433,863</u>
	2,695,411
Less accumulated depreciation	<u>1,192,138</u>
	<u>\$ 1,503,273</u>

Total depreciation expense in 2011 was \$69,703.

**2011 Roll forward of property, plant and equipment:**

	Beginning Balance	Additions	Disposals	Ending Balance
Rural Water System	\$ 2,043,376	\$ 163,520	\$ 39,127	\$ 2,167,769
Building	42,707			42,707
Vehicles		24,072		24,072
Equipment	27,000			27,000
Tower	<u>433,863</u>	<u>                    </u>	<u>                    </u>	<u>433,863</u>
	2,546,946	<u>\$ 187,592</u>	<u>\$ 39,127</u>	2,695,411
Accumulated Depreciation	<u>1,146,479</u>	<u>\$ 69,704</u>	<u>\$ 24,045</u>	<u>1,192,138</u>
Book Value	<u>\$ 1,400,467</u>			<u>\$ 1,503,273</u>

Capitalization policies, depreciation methods, and estimated useful lives of capital assets are as follows:

	<u>Capitalization Policy</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Building	5,000	Straight Line	10 years
Rural Water System	5,000	Straight Line	40 years
Tower	5,000	Straight Line	40 years

The District will use the above to determine capitalization but can capitalize items below the threshold at their discretion.

#### 4. ACCRUED LIABILITIES

Salaries and wages payable	\$ 8,181
Payroll taxes	<u>2,255</u>
	<u>\$ 10,436</u>

#### 5. CONCENTRATION OF CREDIT RISK

The District is engaged in the sale of water to customers located in Leavenworth County in Kansas. The District grants credit to those customers and requires no collateral.

#### 6. WATER PURCHASE CONTRACT

The District does not have a contract to purchase water through the City of Leavenworth, Kansas, but purchases it as needed. The District paid an average of \$2.66 in 2011, per 1,000 gallons and purchased 58,662,000 gallons of water.

#### 7. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the water district. There were no apparent statutory violations during the year ended December 31, 2011, except the District did not pay interest on meter deposits in accordance with K.S.A 12-822.

#### 8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, and injuries to employees. The District manages these various risks of loss through insurance policies through Employers Mutual Casualty Company. See supplemental schedule for details of the various insurance policies.

#### 9. COMPENSATED ABSENCES

The District does not have any formal policies regarding vacation and sick leave and as a result no accruals or adjustments have been recorded to the financial statements.

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**RURAL WATER DISTRICT NO. 8  
LEAVENWORTH COUNTY, KANSAS**

**INSURANCE IN FORCE  
YEAR ENDED DECEMBER 31, 2011**

<b>Policy Type</b>	<b>Expiration Date</b>	<b>Company</b>	<b>Annual Premium</b>	<b>Amount of Coverage</b>	<b>Description</b>
General Liability	5/9/2012	Employers Mutual Casualty Company (EMCC)	\$1,574	\$1,000,000	Aggregate limit 1,000,000 Property damage limit 500,000 Personal injury limit 500,000 Advertising injury limit 50,000 Fire damage legal liability 5,000 Medical expense
Commercial Property	5/9/2012	EMCC	1,509	469,500	Pump house and tanks 75,000 Building and personal property
Linebacker Coverage	5/9/2012	EMCC	1,114	500,000	Each loss 1,000,000 Aggregate
Workers' Compensation	5/9/2012	EMCC	3,660	500,000	Bodily injury by accident 500,000 Bodily injury by each employee 500,000 Bodily injury by policy limit
Employee Dishonesty	5/21/2012	EMCC	439	300,000	Limit per occurrence
Business Auto	5/9/2012	EMCC	89	500,000	Liability

**RURAL WATER DISTRICT NO. 8**  
**LEAVENWORTH COUNTY, KANSAS**

**SCHEDULES OF STATISTICAL INFORMATION**  
**YEAR ENDED DECEMBER 31, 2011**

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Gallons sold		49,709,000
Gallons Purchased		58,568,000
Water loss percentage		15.13%
Number of benefit units		808
Water loss per meter per month		914
Average monthly customer's water bill	\$	35.95
Average monthly cost and expenses per customer	\$	45.72
Average monthly gallons used per customer		5,127